

Making insurance work for the poor

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**Munich Re
Foundation**
From Knowledge
to Action

7 July 2010

Gliederung

1. Einführung
 2. Definition und Bedarf
 3. Stand der Mikroversicherung weltweit bzw. in Afrika
 4. Herausforderungen
 5. Fallbeispiel “Faulu”, Kampala, Uganda
 6. Beispiel Index-Versicherung
 7. Welche Rolle spielen Regierungen und Regulierungen
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-

Munich Re Foundation Background

Going public 7 April 2005

Capital € 50 million

Purpose

Munich Re concerns itself with the great challenges facing the world today – population growth, globalization, diminishing resources, environmental pollution, climate change

The foundation's role is to concentrate specifically on the interaction between population development and the medium of water as elixir of life, resource, and risk factor

Microinsurance

International Microinsurance Conference

2005 Germany
2006 South Africa
2007 India
2008 Colombia
2009 Senegal



2010 Philippines

**6th International Microinsurance Conference
9-11 November 2010, Manila**

www.microinsuranceconference.org/2010
500 participants from over 40 countries

Partners



Microinsurance Compendium

Co-published
with the
International
Labour
Organization
(ILO)



Available in English, Spanish, French and Portuguese
www.microinsurancecompendium.org

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3. Internationale Mikroversicherungskonferenz Mumbai, Indien



4. Internationale Mikroversicherungskonferenz
Cartagena, Kolumbien



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Microinsurance

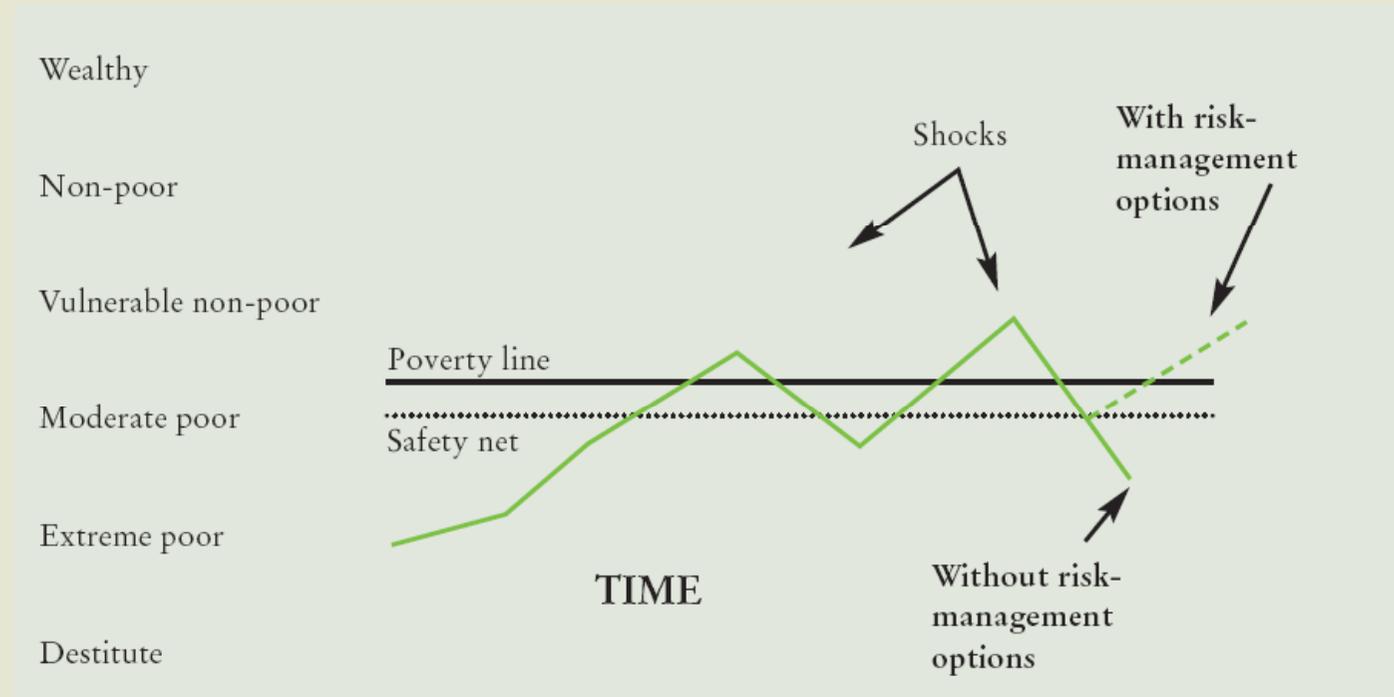
Demand and definition

Demand for Microinsurance

Microinsurance is the provision of insurance to low-income households that otherwise do not have access to insurance.

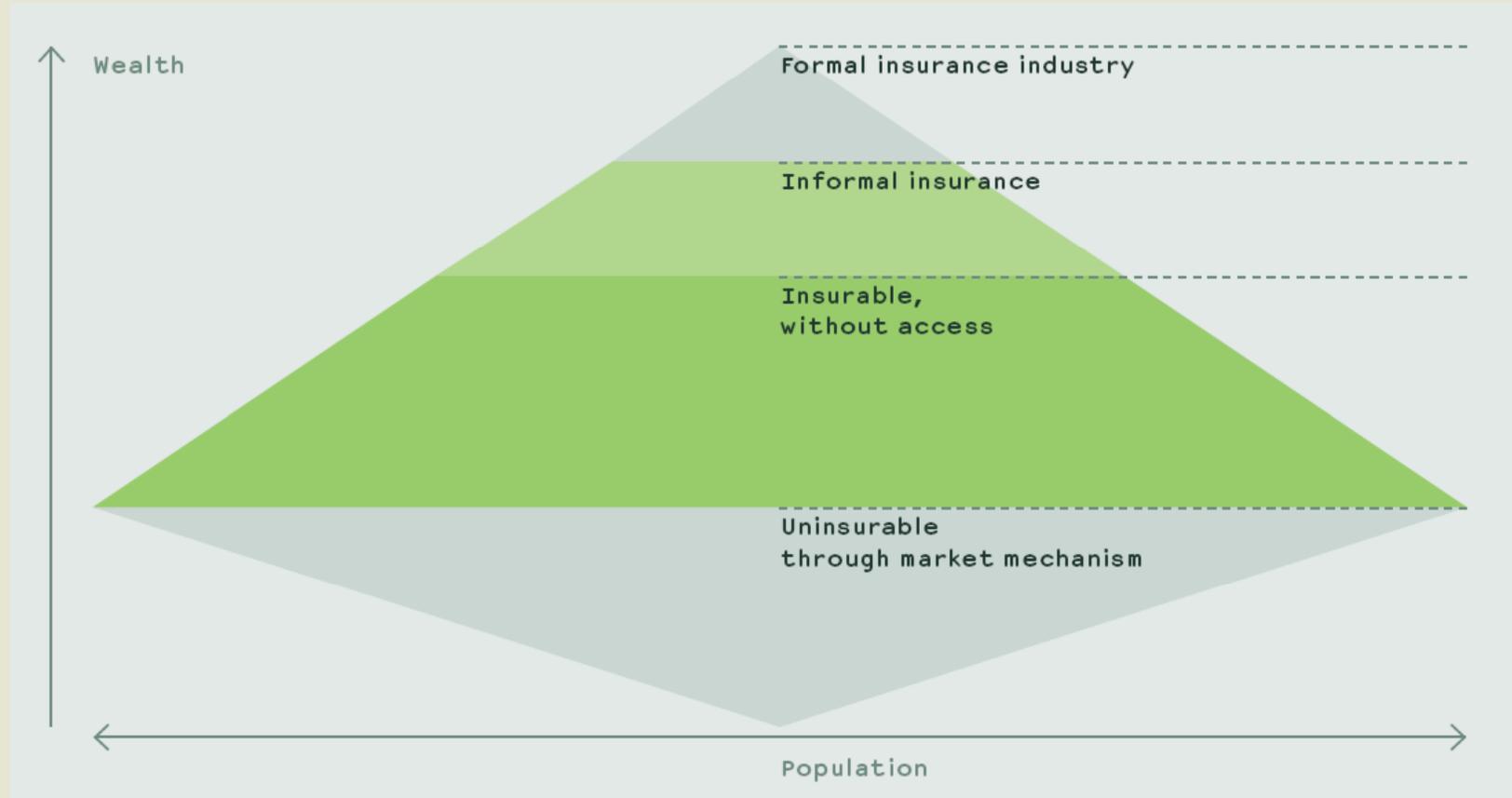
Poor households are especially vulnerable to risk, both in the form of natural calamities as well as more regular occurrences of illness and accidents.

Role of Microinsurance: Impacts of shocks on household income and assets



Source: Protecting the poor – A microinsurance compendium, edited by Craig Churchill, Munich, Geneva, 2006, page 25

The bottom of the access to insurance



Source: Churchill, Craig. Presentation 'An introduction to microinsurance'. Microinsurance Conference 2007.

Priority risks in selected countries

<i>Country</i>	<i>Priority risk</i>
Uganda	Illness, death, disability, property loss, risk of loan
Malawi	Fear of death, especially in relation to HIV/AIDS, food insecurity, illness, education
Philippines	Death, old age, illness
Viet Nam	Illness, natural disaster, accidents, illness/death of livestock
Indonesia	Illness, children's education, poor harvest
Lao P.D.R.	Illness, livestock disease, death
Georgia	Illness, business losses, theft, death of family member, retirement income
Ukraine	Illness, disability, theft
Bolivia	Illness, death, property loss including crop loss in rural areas

Source: Protecting the poor – A microinsurance compendium,
edited by Craig Churchill, Munich, Geneva, 2006, page 27

Where do we stand?

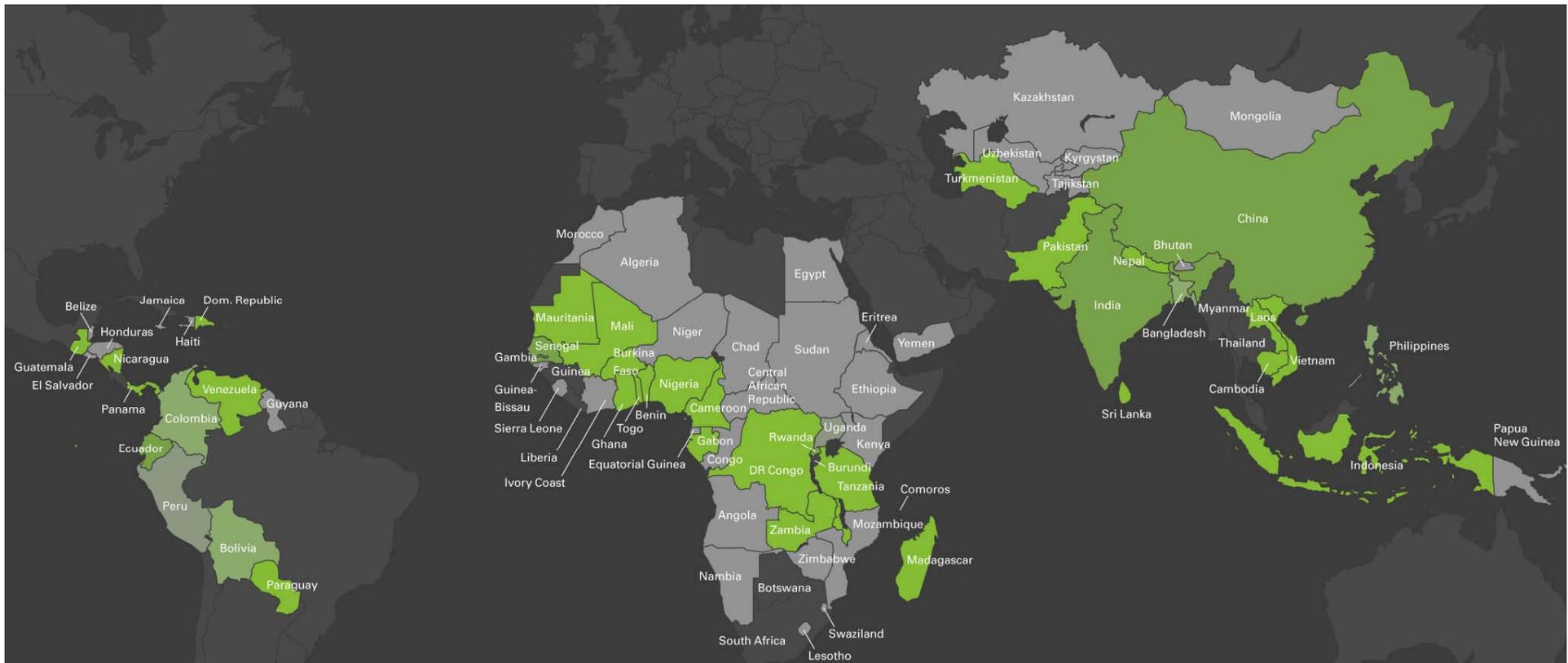
Source: The Landscaping Study
The MicroinsuranceCentre, 2006

Landscaping Study – MicroInsurance Centre

Microinsurance offered in the 100 poorest countries

78 million people in the 100 poorest countries were found to have microinsurance cover.

- 357 microinsurance products
(separate from social security schemes)
- 116 social security schemes
- 246 microinsurers
(separate from government providers of social security)



Microinsurance on the advance

In India and China alone, there are nearly 60 million microinsurance contracts. At current growth rates, the number of contracts will rise above all in South America, but the situation is also starting to look more promising in Africa, starting with Uganda.

Percentage of poor without microinsurance

- No data
- 62–90%
- 90–94%
- 94–98%
- 98% +

Asia	
India	30,111,690
China	28,319,100
Bangladesh	4,488,820
Philippines	1,599,603
Indonesia	221,000
Sri Lanka	159,226
Nepal	147,464
Vietnam	85,621
Pakistan	70,000
Cambodia	8,784
Laos	7,600
Turkmenistan	—

Africa	
Uganda	1,618,236
Senegal	616,604
DR Congo	304,350
Rwanda	284,000
Cameroon	126,861
Ghana	114,000
Benin	81,434
Mali	75,212
Zambia	64,000
Burkina Faso	35,429
Togo	15,908
Tanzania	6,000
Comoros	3,600
Mauritania	3,000
Nigeria	2,725
Gabon	2,500
Madagascar	937

Latin America	
Peru	4,091,292
Colombia	2,559,000
Ecuador	551,422
Bolivia	250,000
Guatemala	105,600
Panama	62,000
Paraguay	42,000
Nicaragua	29,035
Venezuela	23,375
Dom. Republic	525

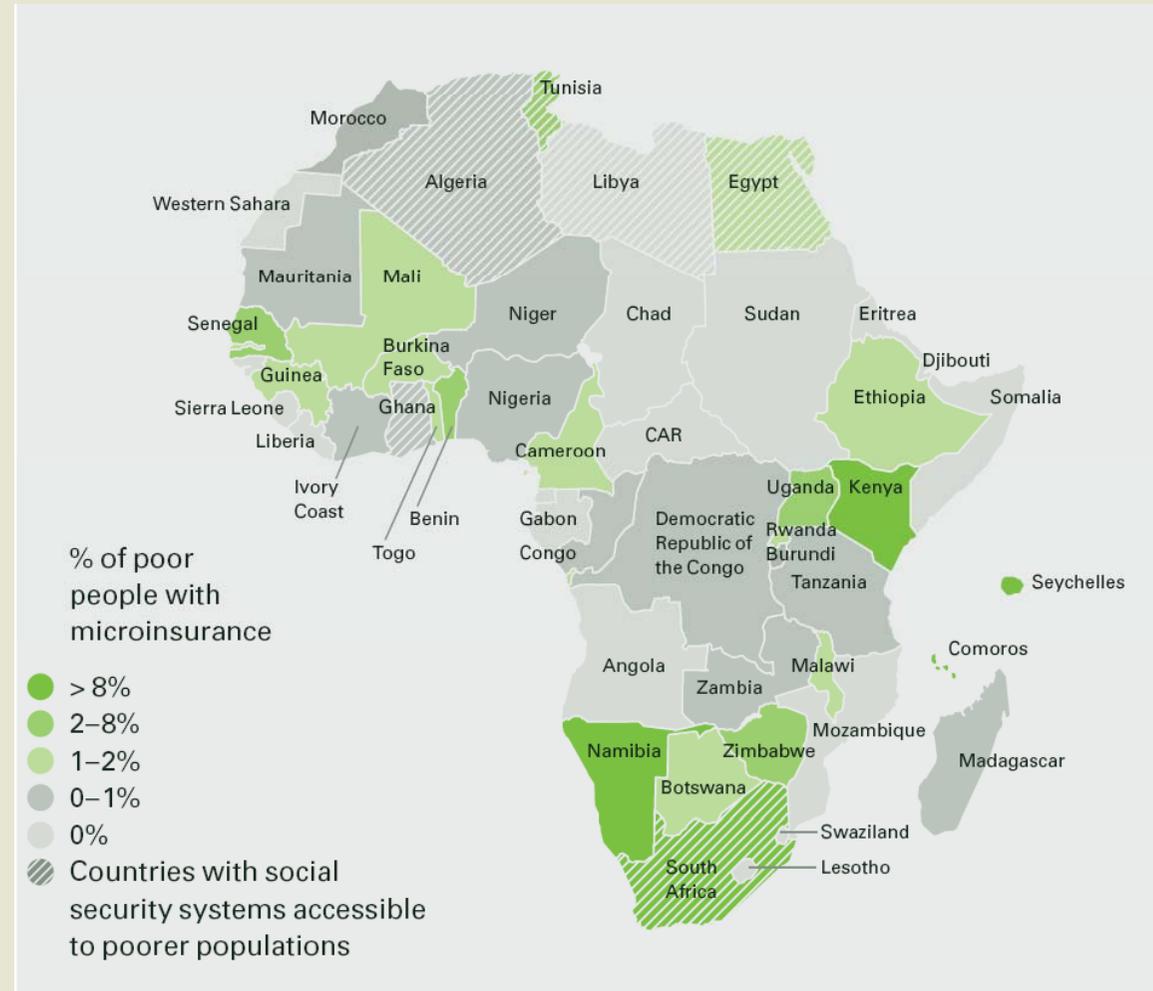
Source: MicroInsurance Centre, 2007

Microinsurance in Africa I

- By the end of 2008, only 14.7 million of the people in Africa living under US\$ 2 per day in 32 countries were covered by microinsurance.
- Moreover, 56% of the penetration is in South Africa where funeral insurance is widespread.
- On average, microinsurance schemes grew at an impressive rate of 30% from 2007 to 2008.

Source: Michal Matul,
Michael J. McCord,
Caroline Phily, Job Harms.
“The Landscape of
Microinsurance in Africa”.
ILO, October 2009

Micrainsurance in Africa II



Source: Michal Matul, Michael J. McCord, Caroline Phily, Job Harms. "The Landscape of Microinsurance in Africa". ILO, October 2009

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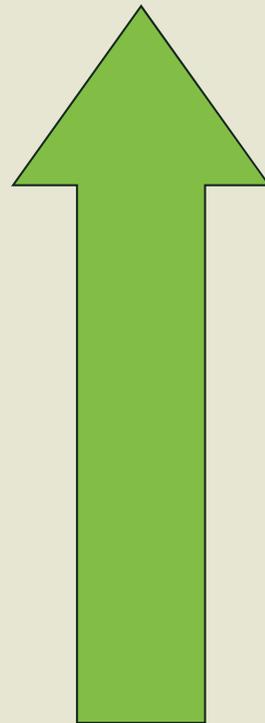
Challenges

Key challenges

- Low premium and high transaction costs per client
- Lack of infrastructure
- Lack of insurance knowledge
- Insurance illiteracy: significant investment in customer-education is necessary
- Low and irregular income: volume is a basis for returns on investment
- Lack of data

Complexity of different insurance products

Highly complex



Simpler

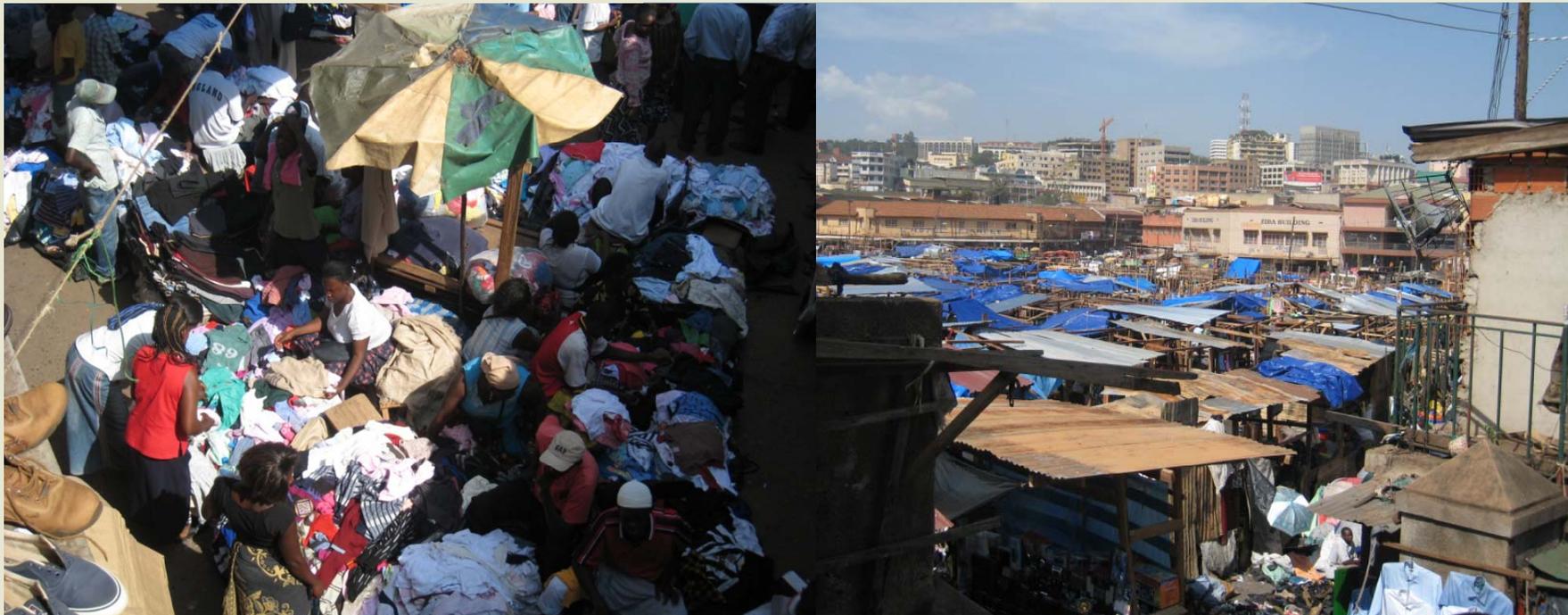
- Crop insurance
- Health and disability insurance
- Annuities and endowment (retirement provision)
- Property insurance
- Term life insurance (payment to beneficiaries on death)

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Case study: Faulu-MicroEnsure-NIC Kampala, Uganda

The Owino-Market

- East Africa's biggest market
- 50,000 merchants
- 10,000 market stands
- 200,000 visitors daily



The product



Loans provided by the Ugandan Microfinance Organisation „Faulu“, member of the Opportunity International network

Total number of clients/loans in Kampala: 20,000

Total number of loans at the Owino-market: 2,000

- Credit period: 4-12 months
- Loan amount: 100 to 1,000 USD
- Interest rate: 3% per month (flat)
equals up to 70% per year



Group insurance, mandatory

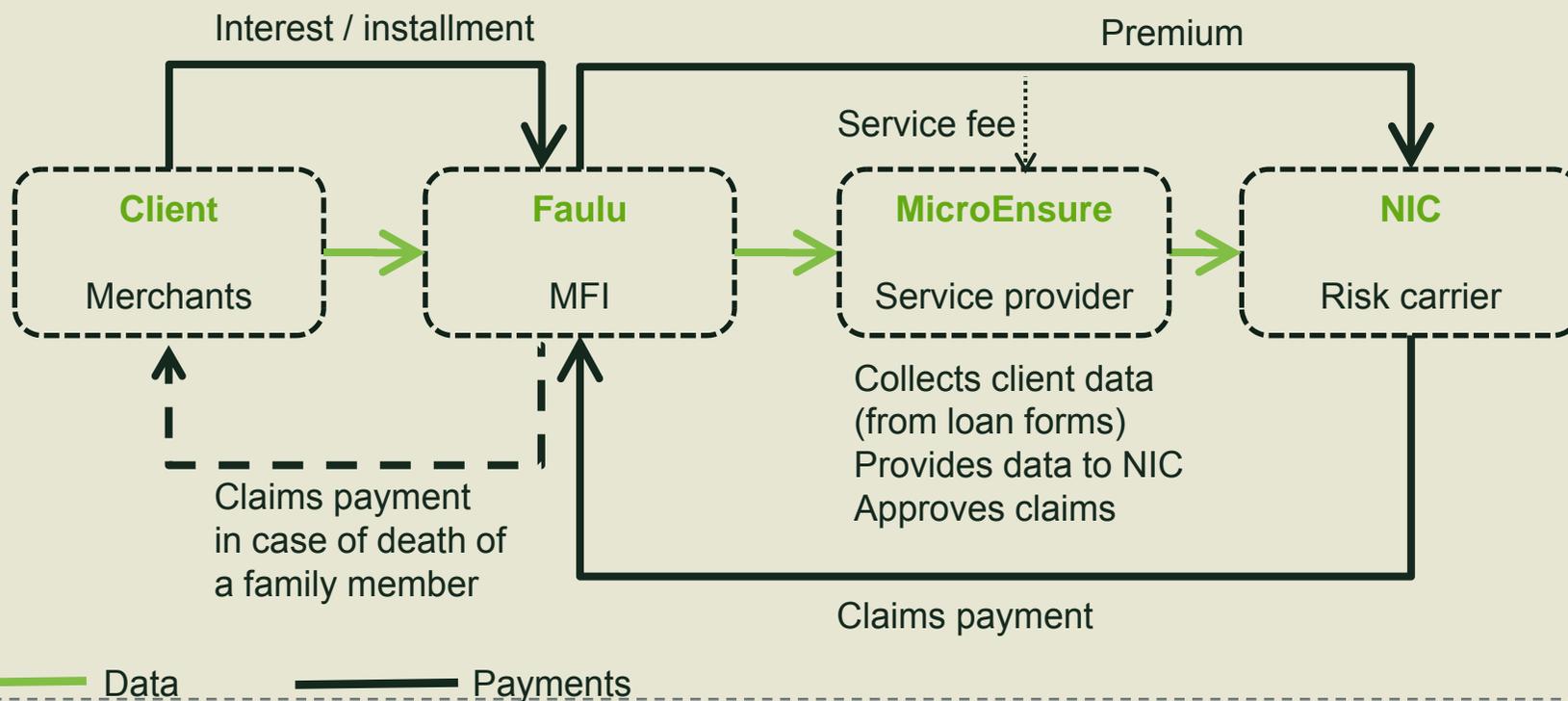
- Premium: 1% of credit sum, single payment
- Max. sum insured = loan amount



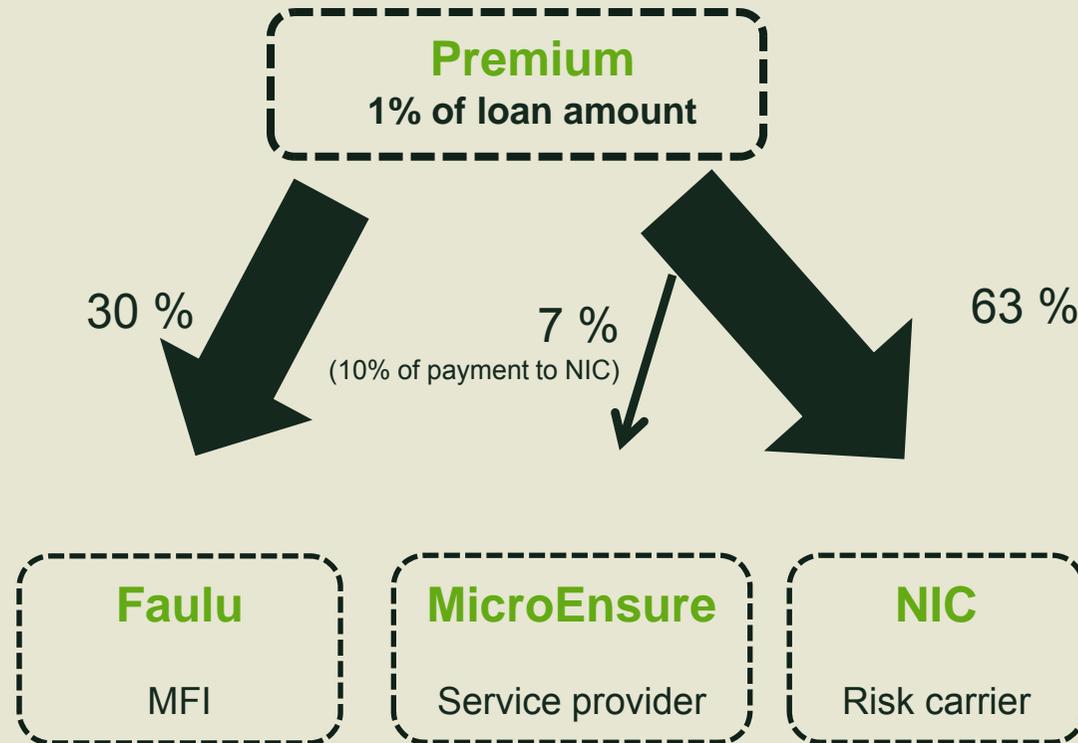
Insured risks

- Death
 - Borrower: *loan amount*
 - Family member: *lump sum for funeral costs*
- Disability: *loan amount*
- Property (Fire, flood, earthquake):
loan amount, not indemnity based

Faulu-MicroEnsure-NIC Microinsurance scheme Kampala, Uganda



Premium distribution



24 February 2009: Fire at the Owino-Market

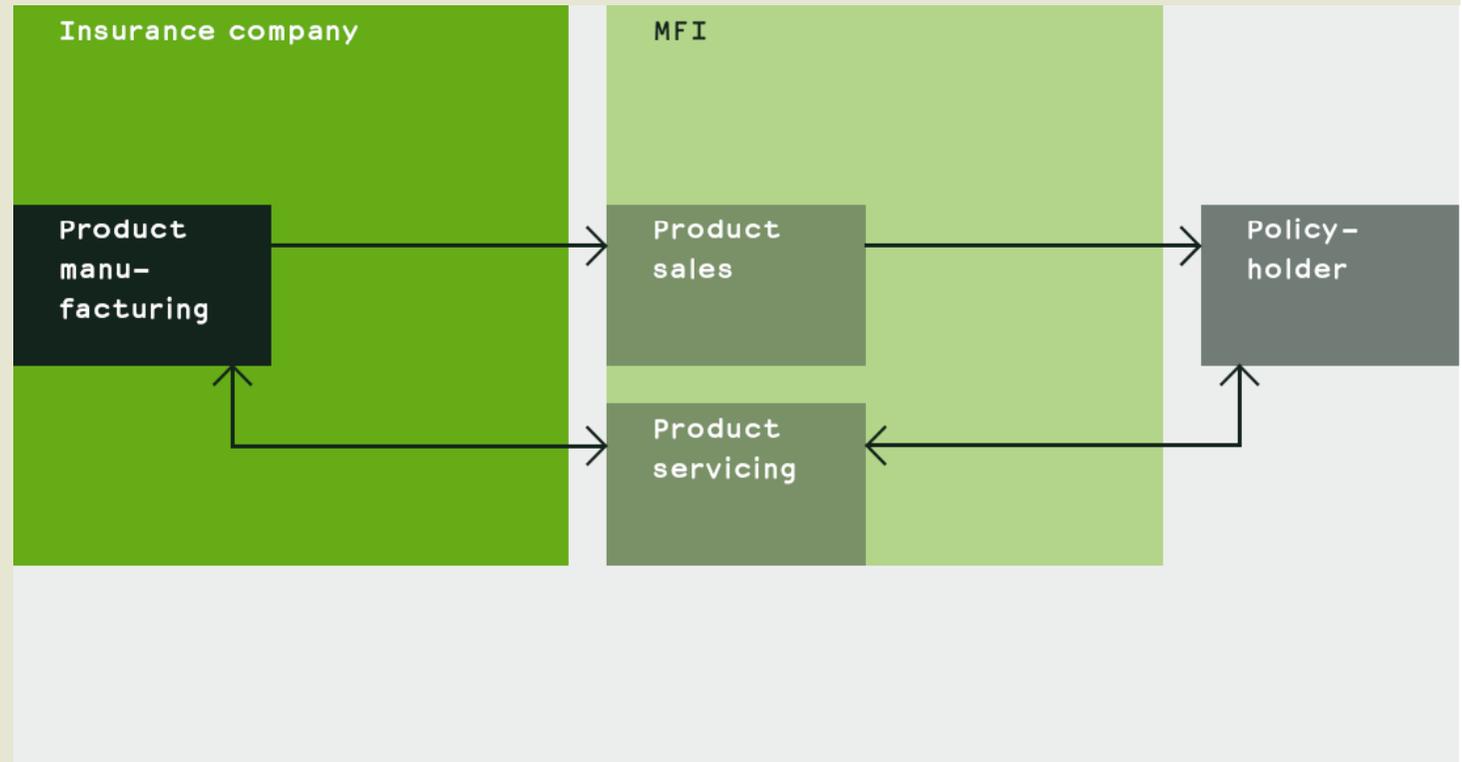
- Part of the market destroyed
- About 300 claims reported to Faulu
- NIC/MicroEnsure aim at claims payment within 8 days of the receipt of documents



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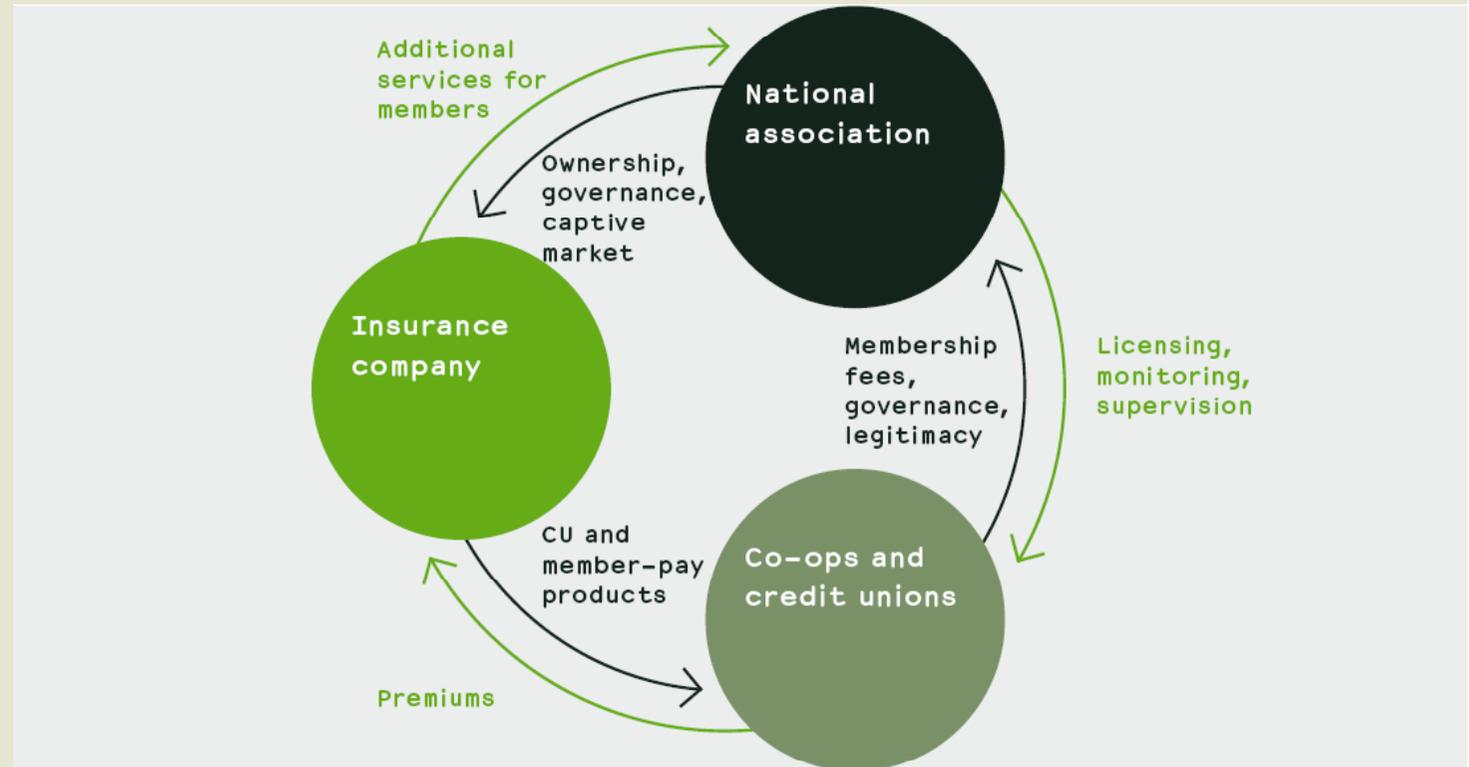
Institutional options

Partner-agent model



Source: Report – Microinsurance Conference 2005

Credit unions and cooperative/mutual insurers



Source: Report – Microinsurance Conference 2005

Direct sales model



Source: Report – Microinsurance Conference 2005

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Examples

Flood insurance, Indonesia

Index-based insurance

- Index-based insurance does not cover losses on an individual loss-adjustment basis, but according to whether they reach certain predetermined thresholds. Index-based insurance is a relatively new product in developing countries
- Index-based insurances can be distinguished according to the different kind of triggers they use:
 - meteorological triggers
 - area yield triggers
 - vegetation indexes.

Key problem: Basis risk

Indonesia - November 26, 2007



Source: Munich Re, November 2008

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Source: JanJaap Brinkman, Deltares – Delft Hdraulics

Trigger Development Water Level Measurement at Manggarai Gate



Source: Munich Re, November 2008

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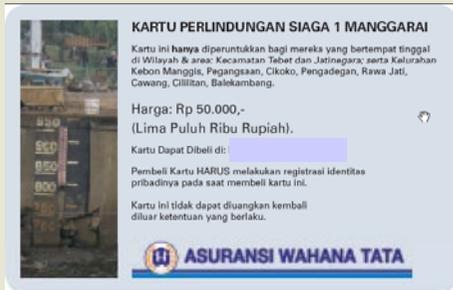
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Flood protection card

Client buys Flood Protection Card (until Oct. 2008)

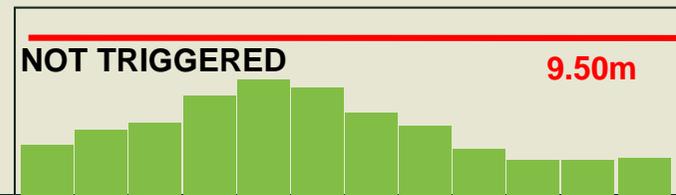
Wet season

Case I:
Not triggered



Price Rp. 50,000

Not triggered: flood water did not reach 9.50m at Manggarai Flood Gate



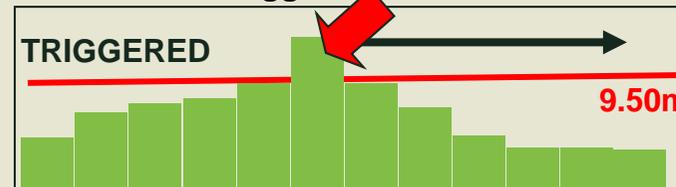
Not triggered:
No payout

Case II:
Triggered



Price Rp. 50,000

Triggered: flood water reached/ exceeded 9.50m at Manggarai Flood Gate



Pay out
Rp. 250,000



Source: Munich Re, November 2008

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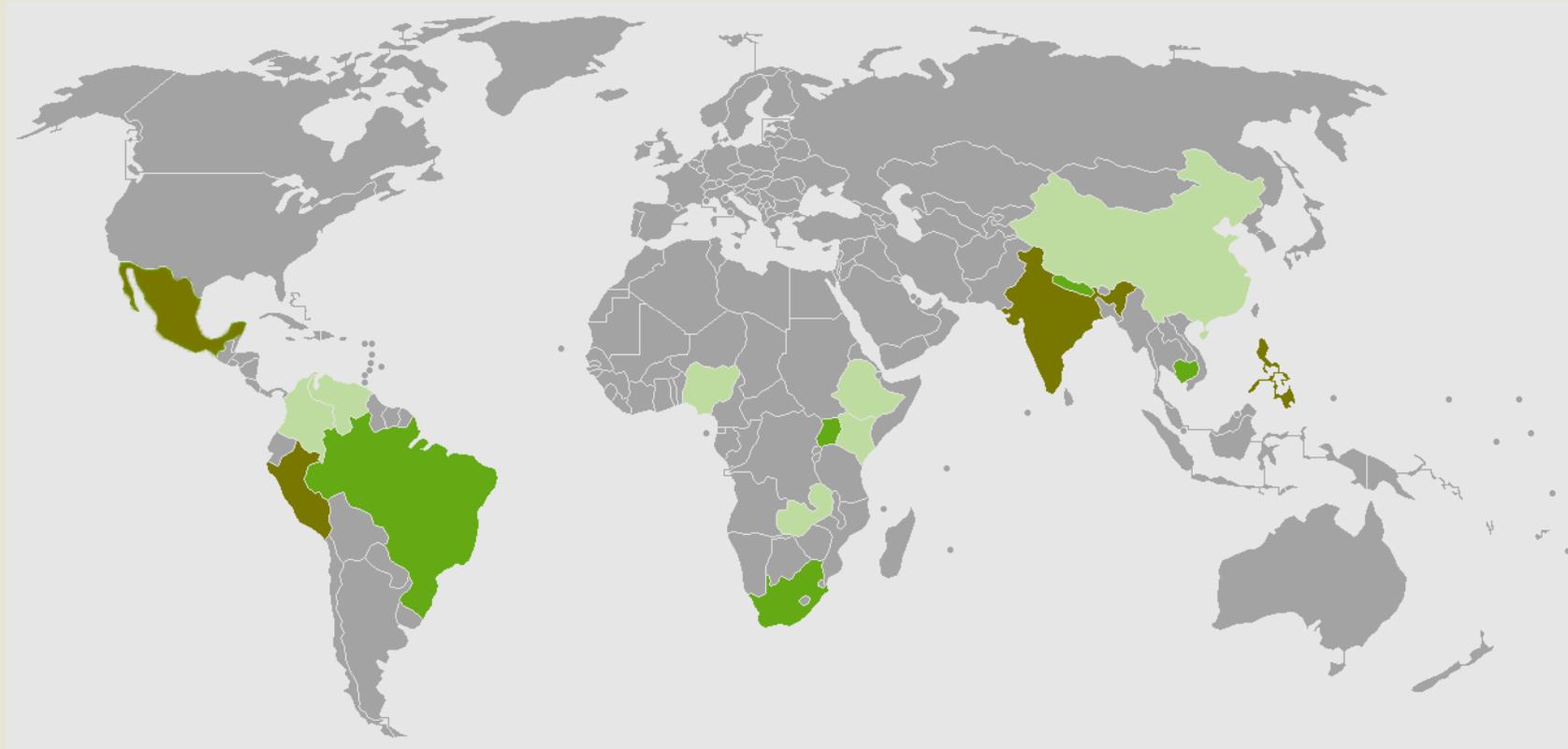
Role of governments/Regulation

Role of ...

- **NGOs/MFIs:** Link to the local communities...
- **Insurance industry:** Risk coverage, insurance knowledge, technical support...
- **Donor agencies:** Financial support for demand surveys and product development...
- **Government:** Legal framework, incentives (e.g. South Africa, India, Philippines)...

If one of the above mentioned parties is missing, the development of appropriate Microinsurance schemes may become extremely difficult!

Microinsurance and microinsurance regulation



- MI and MI regulation:** Peru, Mexico, India, Philippines
- MI and explicit interest in regulation:** Uganda, South Africa, Brazil, Cambodia, Nepal
- MI but no explicit (interest in) regulation yet:** Zambia, Nigeria, Ethiopia, Kenya, Colombia*, Venezuela, China

Source: Cenfri/Munich Re Foundation compiled by Munich Re Foundation 2008
Base map: Maps of the World, Wikimedia

Regulatory approach and leadership: Issues

- Regulatory approach can be
 - proactive vs reactive;
 - facilitative vs exclusionary.

- Financial inclusion policy can
 - push interventions (e.g. India, South Africa);
 - pull interventions (e.g. Colombia).

- The scope is limited by commercial viability.

**-> Regulatory guidelines of the
IAIS/Microinsurance Network Joint Working group**

Source:

Report 4th International Microinsurance Conference 2008, Plenary 5: Regulation, supervision and policy issues

India: Mandatory business norms to cover rural and social sectors

Rural sector

Life insurers

— First five years: 7% – 16% of total policies underwritten

— Sixth to tenth* year: 18% – 20%

Non-life

— First five years: 2% – 5% of total gross premium—

Sixth to tenth* year: 5% – 7%

Social sector

Life and non-life

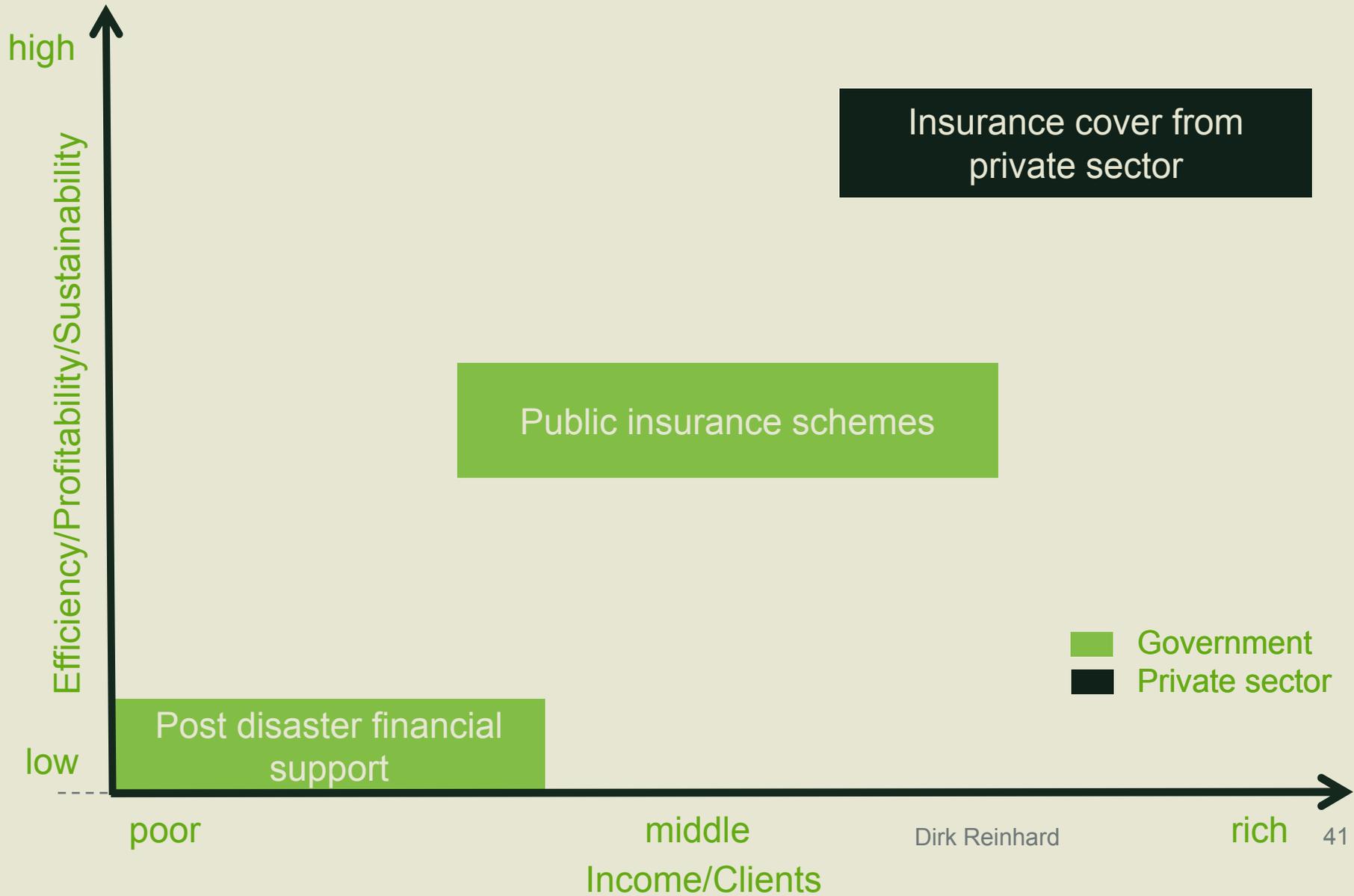
5,000 – 20,000 lives for the first five years and 25,000 – 55,000 lives for sixth to tenth year*

*Pending notification

Microinsurance

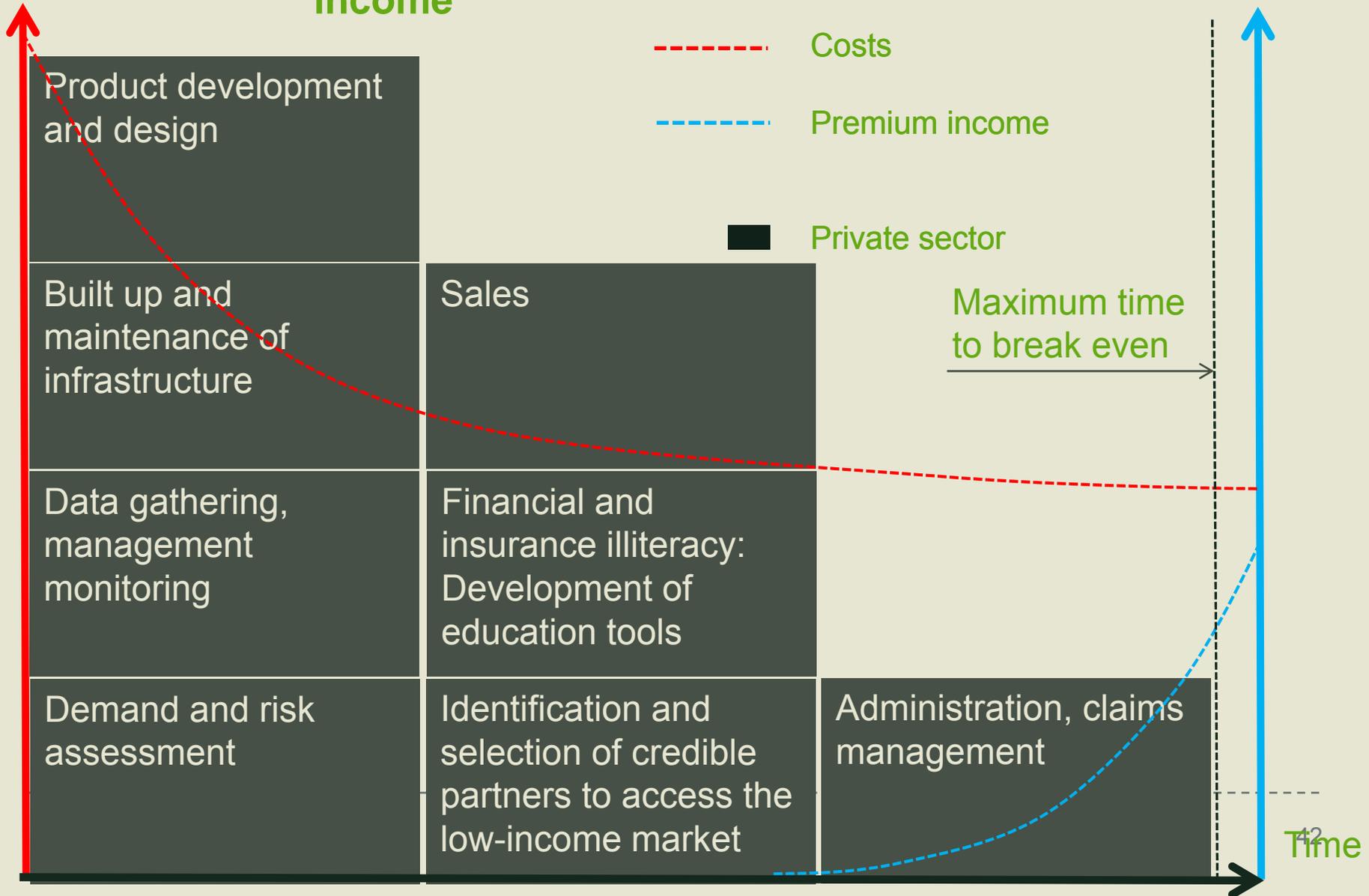
Current status

Outreach vs. profitability

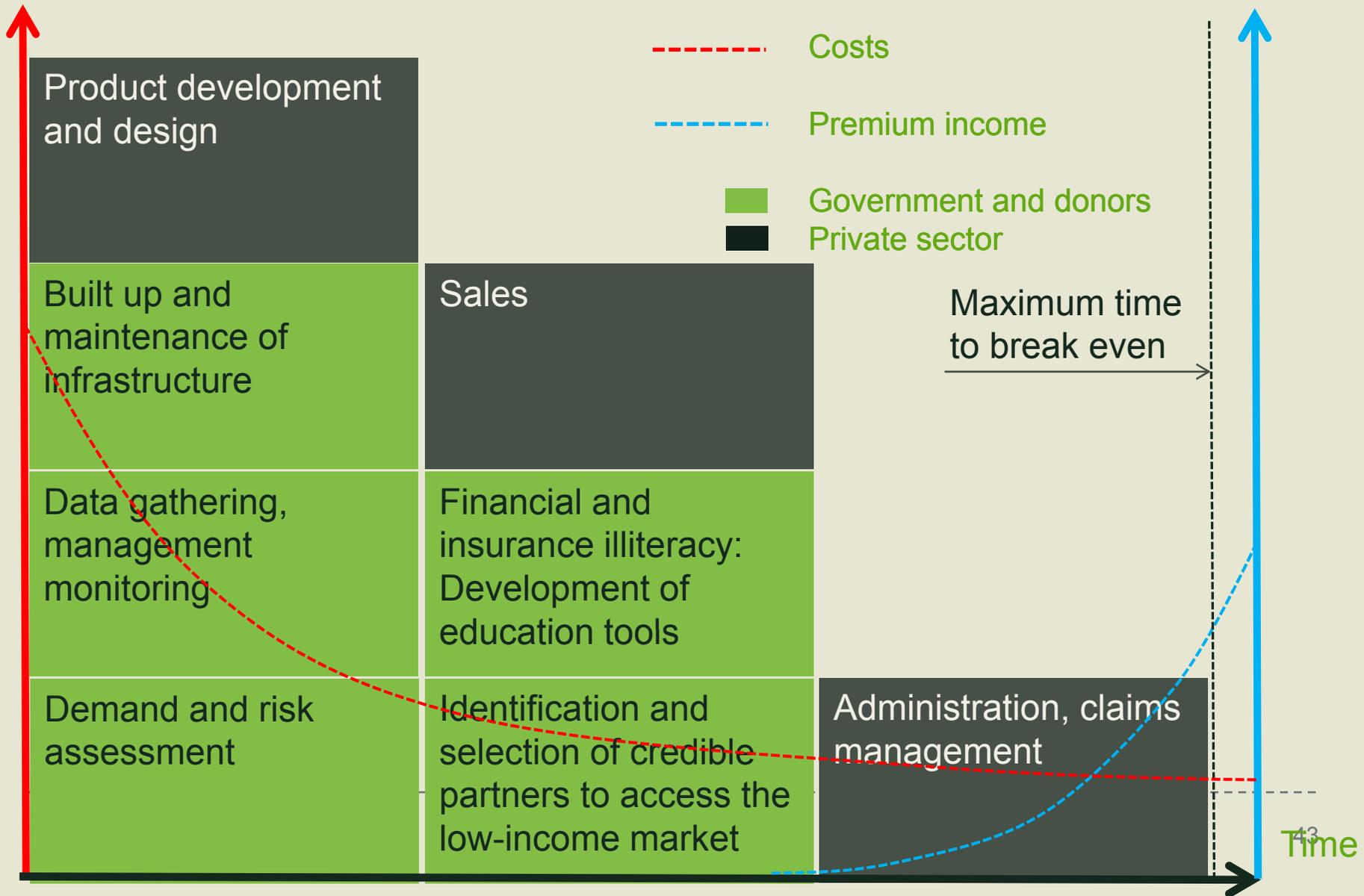


Key barrier for micro-insurance development

High upfront development cost vs. low premium income

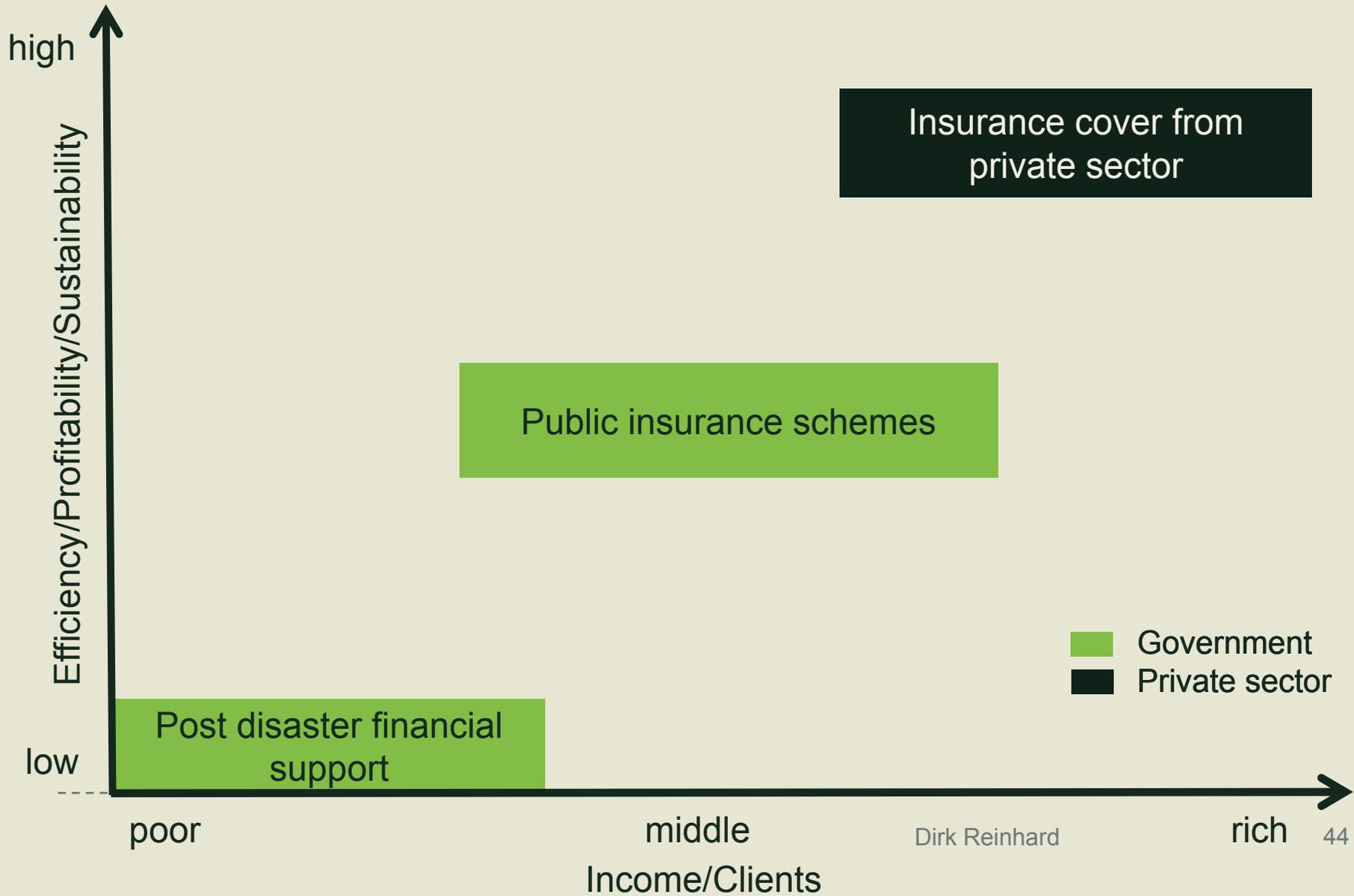


Potential roles of the government and donor organizations: Introduction of smart subsidies

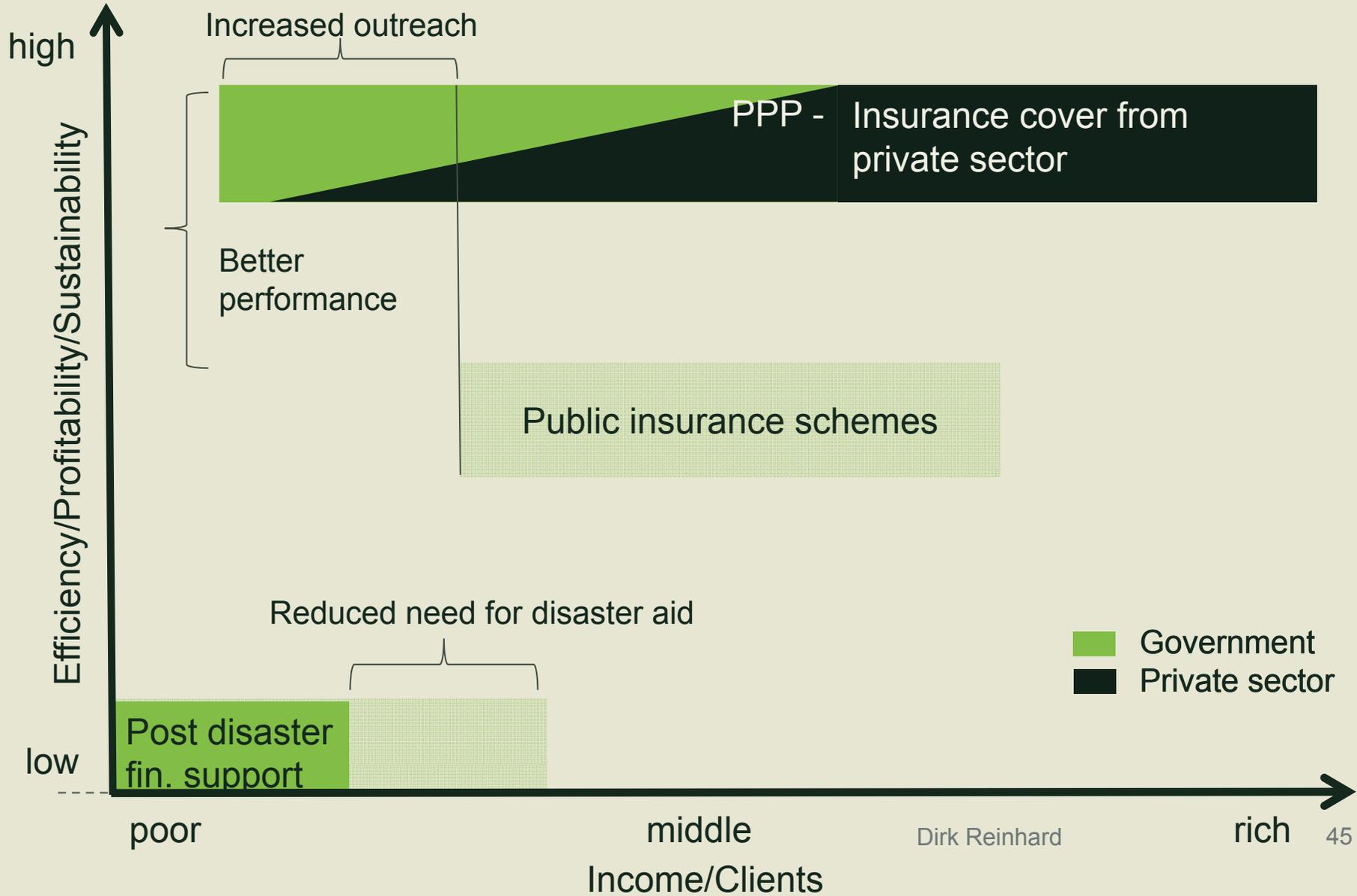


Microinsurance

Current status Outreach vs. profitability



PPP: Increased outreach higher efficiency, lower need for disaster aid



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Outlook

ILO/Microinsurance Innovation Facility

Funding by the Bill & Melinda Gates Foundation:
US \$34 million over five years

- Provides 40-50 grants (up to \$500.000 each)
 - Funds research and technical assistance of organizations serving the poor.
 - Over the course of the next three years, the facility will issue bi-annual requests for proposals and provide funding to pilot new insurance products, improve efficiency in the field, and use technology to create new products that better meet people's needs.
 - The facility will also train technical specialists to help replicate successful models.
-

Opportunity International Microinsurance Agency

Funding by the Bill & Melinda Gates Foundation:
US \$24.2 million

- Has currently insured over 3 million lives
- Started to work on index based weather insurance
- The grant will allow the microinsurance agency to expand into 11 new nations and provide life, health and crop insurance to 21 million more poor people by the year 2012.
- The Gates Foundation now has provided three grants totaling \$41.8 million to Opportunity International since November 2005.

Microinsurance as an investment opportunity

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INVESTMENT STRATEGY

Category	2006	2009
Microinsurance Clients	65m	135m
Microinsurance Demand	1Bn	1.5Bn

28% increase in clients from 2006 to 2009.

VIDEO

Watch President Clinton and Andrew Kuper introduce LeapFrog at the CGI Finale

[play video](#)

PEOPLE + PARTNERS

[learn more](#)

A UNIQUE APPROACH TO INVESTING

- LeapFrog is the world's first microinsurance fund, hailed by President Clinton as the "Insurer to the Poor".
- The fund targets strong returns for investors while reaching 25 million vulnerable people in Africa and Asia with life-changing financial services.

NEWS

LeapFrog is now a \$137 million fund
J.P.Morgan, TIAA-CREF, Proparco, Waterloo, ACE join the fund.

LeapFrog has surged past its target, raising US\$112m
Investments from IFC, KfW, BMZ, Soros EDF, Flagstone Re.

LeapFrog invests in AllLife

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Summary

Lessons learned

- There is a **huge untapped market**
- The **poor are willing to pay** if they can access the right products
- Several products have proven to **be economically viable**
- **Starting with already-existing organisations** such as mutuals and cooperatives and establish strategic links with formal insurers, providers and the social security element is key
- **Strong Public-private partnerships** link experience, build a strong regulatory framework for the benefit of all parties
- Need for action: **as weather-related natural disasters increase, so does the vulnerability** of the poor
- **Don't listen to your heart, listen to your calculator!**

Thank you for your attention!

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